



## STATE OF CALIFORNIA

BUSINESS, TRANSPORTATION AND HOUSING AGENCY  
**DEPARTMENT OF CORPORATIONS**  
California's Investment and Financing Authority

### NEWS RELEASE

**04-38**

Arnold Schwarzenegger, Governor

William P. Wood, Commissioner

**FOR IMMEDIATE RELEASE**  
Wednesday, September 15, 2004

Contact: Debbie O'Donoghue  
(916) 324-9011

### **\*\*INVESTOR ALERT\*\***

### **California Department of Corporations Cautions Investors to Be Aware of Fees Charged by Mutual Funds**

SACRAMENTO --- The California Department of Corporations today warned California investors to be aware of 12b-1 fees that may have an adverse impact on their mutual fund portfolio. The 12b-1 Rule was discussed yesterday at a public forum sponsored by the North American Securities Administrators Association, or NASAA.

The primary use of revenues raised through 12-b1 fees, also know as distribution fees, is to create incentives for brokers to distribute the fund. The fees allows mutual fund advisers to make payments from fund assets for the costs of marketing and distribution of fund shares, and are part of a mutual fund's annual fund operating expenses. The original justification for the 12b-1 Rule, adopted by the Securities Exchange Commission in 1980, was that such fees help attract new shareholders into funds through advertising and by providing incentives for brokers to market the fund, thereby increasing asset growth.

Often, the 12b-1 fees and their negative impact on a fund's return may be difficult for investors to spot in a prospectus. The NASAA panel discussed whether the 12b-1 Rule continues to meet its intended purpose of allowing for smaller mutual funds to pass along distribution costs to investors.

The Department reminds Californians to review their mutual fund prospectus and be aware that all mutual fund fees must be fully disclosed. If the fund has a 12b-1 fee, it must be clearly identified and investors should also closely monitor the 12b-1 fees as they can accumulate and reduce asset growth.

The Department of Corporations is California's Investment and Financing Authority, reporting to the Business, Transportation and Housing Agency and the Governor. The Department is responsible for the regulation, enforcement and licensing of securities, franchises, off-exchange commodities, investment and financial services, independent escrows, consumer and commercial finance lending and residential mortgage lending. For further information or to obtain a complaint form, see the Department's Website at [www.corp.ca.gov](http://www.corp.ca.gov) or call 1-866-ASK-CORP (1-866-275-2677).

###